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FISCAL IMPACT STATEMENT

LS 6720
BILL NUMBER: HB 1749

NOTE PREPARED: Apr 9, 2003
BILL AMENDED: Apr 9, 2003

SUBJECT: Health Insurance

FIRST AUTHOR: Rep. Fry
FIRST SPONSOR: Sen. Miller

BILL STATUS: 2nd Reading - 2nd House

FUNDS AFFECTED: X **GENERAL**
DEDICATED
X **FEDERAL**

IMPACT: State

Summary of Legislation: (Amended) This bill specifies certain requirements that must be contained in another state's law concerning association group accident and sickness insurance policies if a policy issued in the other state covers an Indiana resident. The bill amends the Indiana Comprehensive Health Insurance Association (ICHIA) law concerning premium rates, tax credits, health care provider reimbursement, eligible expenses, pharmacy and chronic disease management programs, prescription drug coverage, out-of-pocket expenses, eligibility, preexisting conditions, and termination of coverage. It requires ICHIA and the Office of Medicaid Policy and Planning to consider the development of payment programs related to ICHIA and Medicaid coverage. The bill makes conforming and technical amendments.

Effective Date: (Amended) July 1, 2003.

Explanation of State Expenditures: (Revised) This bill makes several changes to the Indiana Comprehensive Health Insurance Association law. These changes are expected to generate more revenue for ICHIA and reduce total expenditures. The net losses of ICHIA (the excess of expenses over premium and other revenue) are made up by assessments on member insurance carriers. Members may, in turn, (1) take a credit against Premium Taxes, Adjusted Gross Income Taxes, or any combination of these or similar taxes; or (2) include in the rates for premiums charged for their insurance policies amounts sufficient to recoup the assessments. To the extent that this bill increases premiums and reduces expenditures, it may increase revenue to the state. If insurers are assessed an amount less than their tax liability, the state may receive increased Premium Taxes and/or Adjusted Gross Income Taxes, or any combination of these or similar taxes.

The changes to the ICHIA program include: (1) establishes residency requirements; (2) eliminates list of health conditions that automatically qualify an individual; (3) increases rates for ICHIA policy to not more

than 200% of premium for comparable class from the five largest insurers (4) elimination of $25 referral fees for insurance agents; (5) assessment/credit limitation; (6) reimbursement rate change; (7) implementation of disease management program; (7) annual and lifetime benefit limit; (8) development/implementation of drug management program; (9) prescription drug requirements; (10) deductible adjustment; (11) deductible/out-of-pocket revisions; and (12) eligibility requirements.

(1) Sets Definition of Resident: This provision may reduce the number of individuals that are enrolled in the ICHIA plan. Total impact on plan expenditures is unknown. There are approximately 9,800 individuals with ICHIA plans currently. Under current practice in order for an individual to establish residency, they must reside in the state for at least three months. This bill requires that an individual reside in Indiana for at least 180 days before applying for an Association policy. There is no language in statute currently that automatically discontinues an individual's coverage if they change residency to another state. The contractor for ICHIA conducts investigations of individuals suspected to have changed residency and notifies them that their coverage will expire the following month if they have indeed relocated out of state. This provision may reduce the lag time between when an individual moves out of state and when the policy is canceled. **Cost/Savings:** Cost savings associated with this provision are not known at this time.

(2) Elimination of Qualifying Medical Conditions: Under the current statute an individual does not have to demonstrate an inability to obtain coverage if the individual has one of several listed conditions. The provision in the bill which requires an individual to demonstrate their inability to obtain outside coverage may deter some individuals from obtaining an ICHIA policy. The extent of savings is dependent upon the number of individuals affected. However, given the fact that insurers cannot write waivers of coverage into health insurance policies, it is likely that an individual with one of the current qualifying conditions cannot obtain coverage through a source other than ICHIA, and thus be eligible after a denial of coverage. **Cost/Savings:** Thus, the net reduction in policies issued by ICHIA and the associated cost reductions are negligible.

(3) Premium Rate Increase from 150% to 200% Average Cost: The current blended rate for an ICHIA policy as of September 2002 is $391 per member per month. This provision would increase the rate to approximately $510 per member per month. This provision would probably also reduce the number of individuals with ICHIA policies from 9,800 to approximately 8,220. The total premium collected for the first full year is estimated to be approximately $50 M. The total premium collected for CY 2001 was $31.7 M. The estimated premium collected for CY 2002 is $43.6 M. **Cost/Savings:** The increase in premium collected is an estimated **$6.4 M** with a reduction of 1,580 policies issued. This provision will increase revenues, while at the same time reducing expenditures.

(4) Elimination of Referral Fees: This bill eliminates the provision that an insurance agent that refers an individual to ICHIA for coverage is to receive a $25 referral fee. Referral fees paid for 2001 totaled $28,090, and referral fees for 2002 totaled $34,675 (through October 31, 2002). **Cost/Savings:** Elimination of this requirement will result in cost savings of an estimated average **$30,000** annually.

(5) Assessment Limitation: This bill limits the amount of an assessment that an insurer can take as a tax credit. The bill limits the credit that may be taken to 90% of assessments paid. Based upon CY 2001 data, insurers paid an assessment of $61.4 M, thus insurers would be allowed to claim $55.26 M as tax credits. Beginning October 31, 2002, insurers are required to report the amount of assessments paid and tax credits taken each year. Data from CY 2001 is currently incomplete. However, preliminary data indicate that ICHIA assessments in 2001exceeded tax credits taken by approximately $10.3 M. **Cost/Savings:** This provision may increase the amount of Premium and Adjusted Gross Income taxes collected. However, this is contingent

upon the extent to which insurers would otherwise be able to use earned credits in excess of 90%. The number of insurers that meet this condition is not known at this time.

(6) Reimbursement Rate: This provision changes the reimbursement rates for services provided to ICHIA members to a rate that is no more than current Medicare rates plus 10%. This provision should reduce the total claims costs associated with services provided to members. It is important to note that some services may already be reimbursed at a lower level than this new rate (e.g., hemophilia clotting factor). **Cost/Savings:** Total cost savings associated with this provision is contingent upon administrative action.

(7) Annual and Lifetime Benefit Limit: This provision limits the annual benefits to $250,000 per ICHIA-insured individual. In addition, this provision sets a $1 M lifetime benefit for ICHIA-insured individuals. There are 27 individuals with ICHIA policies that have exceeded $1 M. Of these, 18 still maintain an ICHIA policy. If the $1 M cap were put in place, these individuals may be displaced from the ICHIA program. The exclusion of these individuals from the ICHIA program may lower total expenses and reduce the amount of annual assessments. The bill is silent on when the lifetime limit begins. [Data on the number of individuals that exceed $250,000 annually is currently unknown and will be updated when available.] **Cost/Savings:** The total effect this will have on annual assessments is dependent upon the number of individuals that hit this cap in a given year and the number of new individuals that obtain coverage under the ICHIA program.

(8) Disease Management: This provision requires that ICHIA develop chronic disease management programs. The ICHIA Board shall implement mandatory disease management programs after review of chronic disease management programs for similar populations. This bill requires that an individual participate in a chronic disease management program, if one is approved by ICHIA for a condition the individual receives treatment for. The bill requires that the Board consider recommendations of the Office of Medicaid Policy and Planning Drug Utilization Review Board regarding the development and adoption of pharmaceutical and disease management programs. ICHIA recently signed a contract with an outside company to establish a voluntary disease management program. The voluntary program is estimated to be operational by March 1 and to result in a 5% cost savings. **Cost/Savings:** ICHIA staff estimate that if the disease management program were made mandatory it could result in a 10% cost savings for the program.

(9) Development of a Pharmaceutical Management Program: The Office of Medicaid Policy and Planning Drug Utilization Review Board shall advise ICHIA regarding the development and adoption of a pharmaceutical management program. The ICHIA Board shall implement a pharmaceutical management program after review of other programs for similar populations. The program may not require prior authorization for certain drugs for treatment of HIV/AIDS and Hemophilia. The cost of developing and adopting a new pharmaceutical management program is unknown at this time. It is estimated that the pharmaceutical management program, when fully implemented, will result in a 17%-18% long-term savings on prescription expenditures. **Cost/Savings:** Total prescription expenditures for the period April 2001 to March 2002 were $9.6 M. Based on this data, the estimated savings would be between $1.6 M and $1.7 M annually - however, the savings associated with pharmaceutical management program adoption will not be realized immediately.

(10) Prescription Drug Requirements: The bill also contains a prescription drug provision for individuals enrolled in ICHIA. These individuals are required to obtain prescription drugs from an Internet or mail order pharmacy or a pharmacy that agrees to sell a prescription at the same price as the Internet or mail order pharmacy. Individuals are allowed to purchase prescriptions at other pharmacies as well, however, ICHIA shall only reimburse the amount equal to that paid to an approved pharmacy. **Cost/Savings:** Cost savings associated with this provision are not known at the present time.

(11) Adjust Deductible for Inflation: This provision allows the deductible and total out-of-pocket expenditure to be adjusted annually based upon the percentage increase in the medical care component of the Consumer Price Index each year. **Cost/Savings:** This provision will keep the amount of the deductible constant with regards to inflation.

(12) Revision of Deductibles: This provision requires that deductibles and coinsurance exclude prescription drug costs. The current maximum member out-of-pocket payment for expenses including prescription drugs is $1,500 per individual and $2,500 for family coverage. This provision would exclude payments for prescription drugs from the maximum out-of-pocket amount. Thus, an individual with prescription costs above this limit would remain responsible for paying the copayment. **Cost/Savings:** It is unknown what impact this will have on total program costs. It is anticipated that this will reduce program expenditures.

(12) Eligibility Requirement Changes: This bill eliminates the provision that an individual can obtain an ICHIA policy if current group insurance coverage may be canceled. In addition, it eliminates the provision that an individual can obtain an ICHIA policy without any limitations on pre-existing conditions if current group insurance coverage may be canceled. **Cost/Savings:** These provisions may reduce the number of individuals that obtain an ICHIA policy. The total reduction in expenditures associated with these provisions is not known at this time and is contingent upon the reduction of potential enrollees.

Office of Medicaid Policy and Planning -
Drug Utilization Review Board - The Office of Medicaid Policy and Planning (OMPP) Drug Utilization Review Board (DUR Board) shall advise the ICHIA Board concerning implementation of chronic disease management and pharmaceutical management programs. The DUR Board is a voluntary body tasked primarily with reviewing pharmaceutical issues for OMPP. **Cost/Savings:** The FSSA could not estimate a fiscal impact regarding potential cost to the DUR Board due to a lack of clarity regarding the type of commitment required. However, the agency stated that if the topics proved to be high-profile, the time and resource devotion could be significant.

Medicaid Add-On Payments -
This bill contains provisions for leveraging additional federal Medicaid funding. The bill requires the ICHIA and OMPP to consider using all or part of assessments made to insurers and state funds associated with assessments as the nonfederal share of payments for Medicaid add-on payments to providers. These additional payments to providers could result in provider payments into the ICHIA program. **Cost/Savings:** Total additional revenue is dependent upon administrative action, provider agreements, and federal regulations and approval. Total projected assessments for CY 2002 are approximately $80 M. Total additional federal funds that could be leveraged based upon this amount is an estimated $130 M. This additional revenue could be used to pay some of the claims expenses for ICHIA members.

Background: All carriers, health maintenance organizations, limited service health maintenance organizations, and self-insurers providing health insurance or health care services in Indiana are members of the Indiana Comprehensive Health Insurance Association. ICHIA is funded through premiums paid by individuals obtaining insurance through ICHIA, by assessments to member companies (excluding self-insurers preempted by ERISA), and the state General Fund. Under current eligibility guidelines Indiana residents must show evidence of: (1) denied insurance coverage or an exclusionary rider; (2) one or more of the "presumptive" conditions such as AIDS, cystic fibrosis, or diabetes; (3) insurance coverage under a group, government, or church plan making the applicant eligible under the federal Health Insurance Portability and Accountability Act (HIPAA); or (4) exhausted continuation coverage (e.g., COBRA). Premium rates must be less than or equal to 150% of the average premium charged by the five largest

individual market carriers.

The Department of Health currently pays for approximately 1,300 individuals with HIV/AIDS to be enrolled in the ICHIA program. The state receives approximately $7.8 M from the federal AIDS Drug Assistance Program (ADAP) and Title II of the federal Ryan White Care Act. [Note: The individuals in the ADAP program could also be enrolled in the Medworks program or Medicaid, depending upon income and disability status.] If the ICHIA program is terminated, the Department will not be able to buy in for ADAP enrollees.

The net losses of ICHIA (the excess of expenses over premium and other revenue) are made up by assessments on member insurance carriers. Members may, in turn, (1) take a credit against Premium Taxes, Adjusted Gross Income Taxes, or any combination of these or similar taxes; or (2) include in the rates for premiums charged for their insurance policies amounts sufficient to recoup the assessments. Total expenses for the ICHIA program for CY 2001 were $93.1 M with premium contributions of $31.7 M and assessment receipts of $61.4M. Enrollment in the ICHIA program as of August 2002 was 9,779. Based upon data presented to the State Budget Committee, the assessments for 2003 are projected to exceed the $100 M threshold by approximately $5.6 M. The Executive Director of ICHIA stated that new cost control mechanisms put in place in recent months may control total program costs.

Beginning October 31, 2002, insurers are required to report the amount of assessments paid and tax credits taken each year. Data from CY 2001 is currently incomplete. However, preliminary data indicate that ICHIA assessments in 2001exceeded tax credits taken by approximately $10.3 M.

ICHIA Assessments

Year	Assessment	Percent Change
1997	$18,791,177	10.48%
1998	$25,907,143	37.87%
1999	$24,130,087	-6.86%
2000	$34,816,164	44.29%
2001	$61,406,500	76.37%
2002*	$79,127,224	28.86%
2003*	$105,574,277	33.42%

* Estimates based upon data presented to State Budget Committee by Connie Brown, MPlan, 11/12/02.

Explanation of State Revenues: See *Explanation of State Expenditures*.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Indiana Comprehensive Health Insurance Association.

Local Agencies Affected:

Information Sources: Doug Stratton, Executive Director, ICHIA, 317-877-5376; Testimony of Connie Brown of MPlan to the Budget Committee on November 12, 2002.

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